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SUBJECT: ANGER AND DIFFERENT EXPLANATIONS OVER QIZ
IMPLEMENTATION DELAY

REF: 08CAIRO2507

¶1. (SBU) KEY POINTS

-Public and private sector contacts continue to complain about the delay in implementing the Qualifying Industrial Zones (QIZ) program in Minya and Beni Suef, although the delay is largely due to the GOE's slowness to provide accurate information on the factories in the two governorates.

-Both business and the GOE have stressed that expanding the QIZ to Upper Egypt is key to accelerating development and providing jobs in an economically depressed region.

-One businessman's anger over the delay reflects his personal stake in QIZ expansion, and may be an indication that he had been misinformed by the GOE about the process of the expansion. While the GOE has been slow to publicly advance the QIZ program, increased pressure from business may cause the GOE to consider adopting a mechanism for creating greenfield investment in the QIZ program.

Minya and Beni Suef QIZ's Slow to Get Going

¶2. (SBU) Although the United States Trade Representative (USTR) officially designated Minya and Beni Suef to participate in the QIZ program in January 2009, the program has not yet been put into action in the governorates due to the GOE's delay in providing USTR with accurate information on existing factories in the area.

Anger Over the Delay

¶3. (SBU) On October 18, EconOff met with Alaa Arafa, CEO of the Arafa Holding company and owner of the Swiss Garments Factory, one of the largest factories in the Qualifying Industrial Zone (QIZ) program. Arafa also sits on the Egyptian QIZ committee and is known to be close to the Minister of Trade of Industry and other policymakers in the trade arena. Arafa is livid over the delay in allowing companies from the Beni Suef and Minya governorates, areas designated in the recent expansion of the QIZ program (reftel), to export to the U.S. through the program, describing the holdup as "absolute stupidity." He accuses USTR of violating the QIZ Protocol by seeking additional information on factories operating in Beni Suef and Minya before allowing the program to get underway in the two governorates.

¶4. (SBU) Arafa also blames the new U.S. administration for

the delay, suggesting that it is blocking QIZ expansion in order to protect U.S. domestic industry. The allegation of protectionism was echoed by Ali Awni, the head of the QIZ Unit at the Ministry of Trade and Industry, in a separate meeting with EconOffs on October 20.

A Tough Business Climate

¶15. (SBU) Both Arafa and Awni report that QIZ companies, predominantly in the ready-made garment industry, are struggling. Arafa reports that orders for his factories have been down since October 2008, blaming the global financial crisis and a relatively strong Egyptian pound that is harming exporters. Awni notes that while larger QIZ companies like Arafa's appear to be able to weather the storm, some smaller companies are going out of business, and many have ceased exporting.

Extolling the Benefits of QIZ for Upper Egypt

¶16. (SBU) Both Arafa and Awni emphasize the importance of implementing the QIZs in Upper Egypt because of the greater labor stability that the region offers. A lack of local labor has become a problem in the industrial zones near Cairo, and many of the workers at Arafa's Swiss Garments Factory come from Beni Suef, making the multiple-hour commute each week to work at the factory. Arafa argues that by expanding in Beni Suef, he would be moving part of his operation to a larger labor pool. The relatively stiff

competition for semi-skilled labor in Cairo-area garment factories has also led to a great deal of turnover and absenteeism among workers, both Arafa and Awni report. Because of higher unemployment in Beni Suef, both suggest that worker retention would be far better there.

¶17. (SBU) Arafa and Awni depict QIZ implementation in Upper Egypt as a key component to the GOE's stated plan for addressing the region's poverty and underdevelopment. Both spoke of the need for investment in Upper Egypt to combat not only poverty, but also religious extremism and sectarianism. Awni argues that Beni Suef, like all of Upper Egypt, needs initial investors to bring jobs and infrastructure to the area, creating a "magnet" for future business ventures.

Different Opinions on Reason for Implementation Delay

¶18. (SBU) EconOff repeatedly asked Arafa why the GOE's Ministry of Trade and Industry has been slow to provide information requested by USTR on currently operating factories, given their outspoken support for the immediate need to begin the QIZ program in Minya and Beni Suef. Arafa maintains that the GOE is unwilling to do it simply because it does not believe it is required to do so under the QIZ agreement.

¶19. (SBU) EconOff spoke separately with Mohammed Kassem, the Head of the QIZ Council, which represents a collection of businessmen participating in the program. Kassem believes that the Ministry of Trade and Industry is reluctant to provide USTR with a new list of export-capable factories in Minya and Beni Suef in place at the time of the governorates' QIZ designation because it will be very short, containing just four or five factories. Kassem suggests that one possibility is that the GOE is stalling for time until more factories can become established in the two governorates, in the hope that these factories can then be incorporated into the QIZ program. He notes that the GOE is offering to subsidize start-up costs for factories to begin operation in the governorates.

Comment

¶10. (SBU) Arafa's anger likely reflects his personal stake in the matter: His company's recently built factory in Beni Suef will likely not qualify for QIZ participation on the grounds that it was not operating at the time of the designation of factories in the Beni Suef and Minya governorates as part of the QIZ. We suspect that Arafa may have been misinformed about the new QIZ designations by the Ministry of Trade and Industry, and now feels like the rules of the game have changed.

¶11. (SBU) The motivations of the Ministry of Trade and Industry are less clear. Since the expansion of the QIZ, they have been slow to publicly announce the expansion and slow to roll out any type of strategy to encourage exports under the program. In fairness, the optics of announcing expanded trade relations with Israel in the aftermath of the Gaza war during the Minya and Beni Suef designation in January would not have been ideal. Moreover, it is possible that the global economic slowdown has caused the GOE to focus more on stimulating exports from existing QIZ factories in the face of soft demand, instead of focusing on longer-term strategies to develop Upper Egypt. Improving export conditions, together with pressure from businessmen such as Arafa, may, however, provide the GOE with the needed motivation to engage on establishing a mechanism for developing new greenfield investment under the QIZ, as was previously proposed by USTR in 2005.

Scobey